

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name	County
Fiscal Year End	Opinion Date	Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☐ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☐ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☐ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☐ The local unit is free of repeated comments from previous years.
12. ☐ ☐ The audit opinion is UNQUALIFIED.
13. ☐ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature <i>Hennrich A. Berthiaume</i>	Printed Name		License Number	

VILLAGE OF PAW PAW

Van Buren County, Michigan

FINANCIAL STATEMENTS

February 28, 2006

VILLAGE OF PAW PAW

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INDEPENDENT AUDITORS' REPORT

To the Village Council
Village of Paw Paw, Michigan

We have audited the accompanying financial statements of the governmental activities, business-type activities, the aggregate discretely presented component unit, and each major fund of the Village of Paw Paw as of and for the year ended February 28, 2006, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village of Paw Paw's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, the aggregate discretely presented component unit, and each major fund of the Village of Paw Paw as of February 28, 2006, and the respective changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Village of Paw Paw's basic financial statements. The accompanying other supplemental information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The accompanying financial statements do not present a management's discussion and analysis, which would be an analysis of the financial performance for the year. The Governmental Accounting Standards Board has determined that this analysis is necessary to supplement, although not required to be part of, the basic financial statements.

As described in Note 13, the Village has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and related statements, as of March 1, 2005.

Berthiaume & Co.

July 19, 2006

BASIC FINANCIAL STATEMENTS

VILLAGE OF PAW PAW

STATEMENT OF NET ASSETS

February 28, 2006

	<i>Primary Government</i>			<i>Component Unit - DDA</i>
	<i>Governmental Activities</i>	<i>Business-type Activities</i>	<i>Total</i>	
Assets:				
Cash and cash equivalents	\$ 1,262,931	\$ 1,995,646	\$ 3,258,577	\$ 500,164
Receivables	611,311	510,453	1,121,764	131,968
Internal balances	68,583	(68,583)	-	-
Inventory	-	62,005	62,005	-
Capital assets:				
Nondepreciable capital assets	-	258,091	258,091	-
Depreciable capital assets, net	1,301,081	9,312,258	10,613,339	55,734
Total assets	3,243,906	12,069,870	15,313,776	687,866
Liabilities:				
Accounts payable and accrued expenses	120,846	301,090	421,936	5,075
Long-term liabilities:				
Due within one year	-	175,000	175,000	-
Due in more than one year	227,981	1,936,003	2,163,984	-
Total liabilities	348,827	2,412,093	2,760,920	5,075
Net assets:				
Invested in capital assets, net of related debt	1,301,081	7,518,009	8,819,090	55,734
Restricted for:				
Streets	134,092	-	134,092	-
Unrestricted	1,459,906	2,139,768	3,599,674	627,057
Total net assets	\$ 2,895,079	\$ 9,657,777	\$ 12,552,856	\$ 682,791

The accompanying notes are an integral part of these financial statements.

VILLAGE OF PAW PAW

STATEMENT OF ACTIVITIES

Year Ended February 28, 2006

		Program Revenues			
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenue
Functions/Programs	Expenses				
PRIMARY GOVERNMENT:					
Governmental activities:					
General government	\$ 206,178	\$ 410,115	\$ -	\$ -	\$ 203,937
Public safety	863,943	39,450	26,136	7,500	(790,857)
Public works	871,773	70,330	294,875	-	(506,568)
Community and economic development	26,795	625	-	-	(26,170)
Recreation and culture	329,010	22,514	23,782	-	(282,714)
Total governmental activities	2,297,699	543,034	344,793	7,500	(1,402,372)
Business-type activities:					
Electric	2,979,592	2,903,343	-	-	(76,249)
Sewer	653,145	738,097	-	-	84,952
Water	480,784	577,187	-	-	96,403
Total business-type activities	4,113,521	4,218,627	-	-	105,106
Total primary government	\$ 6,411,220	\$ 4,761,661	\$ 344,793	\$ 7,500	\$ (1,297,266)
COMPONENT UNIT:					
Downtown development authority	\$ 76,313	\$ 6,936	\$ -	\$ -	\$ (69,377)
Total component unit	\$ 76,313	\$ 6,936	\$ -	\$ -	\$ (69,377)

continued

The accompanying notes are an integral part of these financial statements.

	<i>Primary Government</i>			
	<i>Governmental</i>	<i>Business-</i>		<i>Component</i>
	<i>Activities</i>	<i>type</i>	<i>Total</i>	<i>Unit - DDA</i>
	<i>Activities</i>	<i>Activities</i>	<i>Total</i>	<i>Unit - DDA</i>
Changes in net assets				
Net (Expense) Revenue	\$ (1,402,372)	\$ 105,106	\$ (1,297,266)	\$ (69,377)
<i>General revenues:</i>				
Taxes:				
Property taxes, levied for general purpose	717,083	-	717,083	-
Property taxes, levied for streets	286,252	-	286,252	-
Property taxes, captured by DDA	-	-	-	284,324
Payment in lieu of property taxes	162,550	-	162,550	-
Franchise fees	18,514	-	18,514	-
Grants and contributions not restricted to specific programs	349,122	-	349,122	-
Unrestricted investment earnings	48,296	69,164	117,460	6,860
Miscellaneous	10,887	-	10,887	-
Special item - Gain on sale of capital asset	41,014	-	41,014	-
Total general revenues and special items	<u>1,633,718</u>	<u>69,164</u>	<u>1,702,882</u>	<u>291,184</u>
Change in net assets	231,346	174,270	405,616	221,807
Net assets, beginning of year	<u>2,663,733</u>	<u>9,483,595</u>	<u>12,147,328</u>	<u>460,984</u>
Net assets, end of year	<u>\$ 2,895,079</u>	<u>\$ 9,657,865</u>	<u>\$ 12,552,944</u>	<u>\$ 682,791</u>

VILLAGE OF PAW PAW

GOVERNMENTAL FUNDS

BALANCE SHEET

February 28, 2006

	<i>Major Funds</i>			<i>Nonmajor</i>	<i>Total</i>
	<i>General</i>	<i>Major</i>	<i>Revolving</i>	<i>Governmental</i>	<i>Governmental</i>
	<i>Fund</i>	<i>Street</i>	<i>Loan</i>	<i>Funds</i>	<i>Funds</i>
		<i>Fund</i>	<i>Fund</i>		
Assets:					
Cash and cash equivalents	\$ 652,002	\$ 14,248	\$ 420,514	\$ 76,225	\$ 1,162,989
Taxes receivable	53,869	8,483	-	13,284	75,636
Accounts receivable	24,465	-	-	-	24,465
Notes receivable	-	-	390,590	-	390,590
Due from other governmental units	47,194	30,148	-	11,611	88,953
Due from other funds	97,306	704	-	5,695	103,705
Due from component unit	2,072	-	1,715	-	3,787
Advance to other funds	169,575	-	-	-	169,575
Total assets	<u>\$ 1,046,483</u>	<u>\$ 53,583</u>	<u>\$ 812,819</u>	<u>\$ 106,815</u>	<u>\$ 2,019,700</u>
Liabilities and Fund Balances:					
Liabilities:					
Accounts payable and accrued expenses	\$ 60,174	\$ 5,843	\$ 719	\$ 5,755	\$ 72,491
Due to other governmental units	465	-	-	38	503
Due to other funds	106,543	4,233	4,824	8,137	123,737
Deferred revenue	-	-	390,590	-	390,590
Total liabilities	<u>167,182</u>	<u>10,076</u>	<u>396,133</u>	<u>13,930</u>	<u>587,321</u>
Fund balances:					
Reserved:					
Risk pool deposit	69,884	-	-	-	69,884
Unreserved:					
General fund	809,417	-	-	-	809,417
Special revenue funds	-	43,507	416,686	92,885	553,078
Total fund balances	<u>879,301</u>	<u>43,507</u>	<u>416,686</u>	<u>92,885</u>	<u>1,432,379</u>
Total liabilities and fund balances	<u>\$ 1,046,483</u>	<u>\$ 53,583</u>	<u>\$ 812,819</u>	<u>\$ 106,815</u>	<u>\$ 2,019,700</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF PAW PAW

RECONCILIATION OF FUND BALANCES OF THE GOVERNMENTAL FUNDS TO NET ASSETS OF GOVERNMENTAL ACTIVITIES

February 28, 2006

Total fund balances for governmental funds \$ 1,432,379

Total net assets reported for governmental activities in the statement of
of net assets is different because:

Capital assets used in governmental activities are not financial resources
and therefore are not reported in the governmental funds.

Governmental capital assets	1,586,421	
Less accumulated depreciation	<u>(616,764)</u>	969,657

Deferred revenues reported in the governmental funds are recognized as
revenues for the governmental activities. 390,590

Long-term liabilities are not due and payable in the current year and
therefore are not reported in the governmental funds:

Compensated absences payable	(210,149)
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The assets and liabilities of internal service funds are included in governmental
activities in the statement of net assets. 312,602

Net assets of governmental activities \$ 2,895,079

The accompanying notes are an integral part of these financial statements.

VILLAGE OF PAW PAW

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

Year Ended February 28, 2006

	<i>Major Funds</i>			<i>Nonmajor</i>	<i>Total</i>
	<i>General</i>	<i>Major</i>	<i>Revolving</i>	<i>Governmental</i>	<i>Governmental</i>
	<i>Fund</i>	<i>Street</i>	<i>Loan</i>	<i>Funds</i>	<i>Funds</i>
		<i>Fund</i>	<i>Fund</i>		
Revenues					
Property taxes	\$ 851,119	\$ 126,581	\$ -	\$ 188,185	\$ 1,165,885
Licenses and permits	55,494	-	-	-	55,494
State grants	361,658	171,518	-	71,304	604,480
Contributions from other units	-	20,301	-	31,752	52,053
Charges for services	547,783	-	-	17,152	564,935
Fines and forfeits	16,070	-	-	-	16,070
Interest and rents	40,539	3,526	37,924	10,069	92,058
Other revenue	107,824	15	107,766	19,017	234,622
Total revenues	<u>1,980,487</u>	<u>321,941</u>	<u>145,690</u>	<u>337,479</u>	<u>2,785,597</u>
Expenditures					
Current					
General government	345,569	-	38,681	-	384,250
Public safety	849,578	-	-	-	849,578
Public works	496,163	208,826	-	160,852	865,841
Community and economic development	23,088	-	-	-	23,088
Recreation and culture	258,368	-	-	52,102	310,470
Capital outlay	265,879	157,600	-	74,773	498,252
Total expenditures	<u>2,238,645</u>	<u>366,426</u>	<u>38,681</u>	<u>287,727</u>	<u>2,931,479</u>
Excess (deficiency) of revenues over expenditures	<u>(258,158)</u>	<u>(44,485)</u>	<u>107,009</u>	<u>49,752</u>	<u>(145,882)</u>
Other financing sources (uses)					
Transfers in	-	-	-	10,000	10,000
Transfers out	<u>(10,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(10,000)</u>
Total other financing sources (uses)	<u>(10,000)</u>	<u>-</u>	<u>-</u>	<u>10,000</u>	<u>-</u>
Net change in fund balances	(268,158)	(44,485)	107,009	59,752	(145,882)
Fund balances, beginning of year, restated	<u>1,147,459</u>	<u>87,992</u>	<u>309,677</u>	<u>33,133</u>	<u>1,578,261</u>
Fund balances, end of year	<u>\$ 879,301</u>	<u>\$ 43,507</u>	<u>\$ 416,686</u>	<u>\$ 92,885</u>	<u>\$ 1,432,379</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF PAW PAW

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES Year Ended February 28, 2006

Net change in fund balances - total governmental funds \$ (145,882)

Total change in net assets reported for governmental activities in the statement of activities is different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is depreciated over their estimated useful lives and reported as depreciation expense.

Capital outlay	483,370	
Less depreciation expense	<u>(29,255)</u>	454,115

Revenues in the statement of activities that do not provide current financial resources are reported as deferred revenues in the funds. (93,619)

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Change in compensated absences payable	(21,191)
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The net revenue (expense) of internal service funds is reported with governmental activities. 37,923

Change in net assets of governmental activities \$ 231,346

The accompanying notes are an integral part of these financial statements.

VILLAGE OF PAW PAW

PROPRIETARY FUNDS

STATEMENT OF NET ASSETS

February 28, 2006

	<i>Business-type Activities</i>				<i>Governmental Activities</i>
	<i>Electric Fund</i>	<i>Sewer Fund</i>	<i>Water Fund</i>	<i>Total</i>	<i>Motor Pool Fund</i>
Assets					
<i>Current assets</i>					
Cash and cash equivalents	\$ 1,119,887	\$ 666,851	\$ 208,996	\$ 1,995,734	\$ 99,942
Accounts receivable	377,108	59,774	73,571	510,453	27,880
Due from other funds	83,110	20,234	46,086	149,430	3,690
Inventory	59,609	-	2,396	62,005	-
Total current assets	1,639,714	746,859	331,049	2,717,622	131,512
<i>Noncurrent assets</i>					
Advance to other funds	821,425	-	-	821,425	-
Capital assets:					
Nondepreciable capital assets	30,118	227,123	850	258,091	-
Depreciable capital assets, net	1,397,145	4,741,045	3,174,068	9,312,258	331,424
Total noncurrent assets	2,248,688	4,968,168	3,174,918	10,391,774	331,424
Total assets	3,888,402	5,715,027	3,505,967	13,109,396	462,936
Liabilities					
<i>Current liabilities</i>					
Accounts payable	185,598	5,091	6,872	197,561	43,612
Accrued expenses	12,889	4,975	5,516	23,380	4,240
Due to other funds	-	48,439	-	48,439	84,650
Deposits payable	39,378	5,304	4,451	49,133	-
Accrued interest payable	-	13,514	17,502	31,016	-
Current portion of long-term debt	-	25,000	150,000	175,000	-
Total current liabilities	237,865	102,323	184,341	524,529	132,502
<i>Noncurrent liabilities</i>					
Advance from other funds	-	607,641	383,358	990,999	-
Compensated absences payable	33,852	15,094	9,717	58,663	17,832
Long-term debt	-	635,000	1,242,340	1,877,340	-
Total noncurrent liabilities	33,852	1,257,735	1,635,415	2,927,002	17,832
Total liabilities	271,717	1,360,058	1,819,756	3,451,531	150,334
Net assets					
Invested in capital assets, net of related debt	1,427,263	4,308,168	1,782,578	7,518,009	331,424
Unrestricted	2,189,422	46,801	(96,367)	2,139,856	(18,822)
Total net assets	\$ 3,616,685	\$ 4,354,969	\$ 1,686,211	\$ 9,657,865	\$ 312,602

The accompanying notes are an integral part of these financial statements.

VILLAGE OF PAW PAW

PROPRIETARY FUNDS

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

Year Ended February 28, 2006

	<i>Business-type Activities</i>				<i>Governmental Activities</i>
	<i>Electric Fund</i>	<i>Sewer Fund</i>	<i>Water Fund</i>	<i>Total</i>	<i>Motor Pool Fund</i>
Operating revenues					
Charges for services	\$ 2,844,333	\$ 705,438	\$ 553,329	\$ 4,103,100	\$ -
Penalties	14,839	3,415	3,350	21,604	-
Equipment rental	-	-	-	-	403,242
Other	44,171	29,244	20,508	93,923	-
Total operating revenues	<u>2,903,343</u>	<u>738,097</u>	<u>577,187</u>	<u>4,218,627</u>	<u>403,242</u>
Operating expenses					
Personnel	268,477	113,053	125,475	507,005	85,042
Fringe benefits	99,937	42,181	44,240	186,358	49,872
Supplies	82,431	16,228	27,552	126,211	49,774
Property tax equivalents	145,000	-	-	145,000	-
Contracted services	29,714	16,345	5,067	51,126	64,504
Purchase of power	1,978,474	-	-	1,978,474	-
Administrative expense	170,929	95,720	82,046	348,695	34,186
Telephone	222	553	222	997	222
Dues and membership fees	8,828	2,195	1,282	12,305	-
Education and training	1,574	1,292	1,042	3,908	-
Utilities	-	55,148	6,162	61,310	2,821
Repair and maintenance	4,165	19,304	4,149	27,618	39,601
Equipment rental	94,921	28,758	35,452	159,131	-
Other services and supplies	6,650	1,567	2,799	11,016	6,748
Depreciation	88,270	209,057	91,355	388,682	37,913
Total operating expenses	<u>2,979,592</u>	<u>601,401</u>	<u>426,843</u>	<u>4,007,836</u>	<u>370,683</u>
Operating income (loss)	<u>(76,249)</u>	<u>136,696</u>	<u>150,344</u>	<u>210,791</u>	<u>32,559</u>
Non-operating revenues (expenses)					
Interest income	52,534	14,089	2,541	69,164	1,850
Gain on sale of capital assets	-	-	-	-	3,514
Interest expense	-	(51,744)	(53,941)	(105,685)	-
Total non-operating revenues (expenses)	<u>52,534</u>	<u>(37,655)</u>	<u>(51,400)</u>	<u>(36,521)</u>	<u>5,364</u>
Net income (loss)	<u>(23,715)</u>	<u>99,041</u>	<u>98,944</u>	<u>174,270</u>	<u>37,923</u>
Net assets, beginning of year, restated	<u>3,640,400</u>	<u>4,255,928</u>	<u>1,587,267</u>	<u>9,483,595</u>	<u>274,679</u>
Net assets, end of year	<u>\$ 3,616,685</u>	<u>\$ 4,354,969</u>	<u>\$ 1,686,211</u>	<u>\$ 9,657,865</u>	<u>\$ 312,602</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF PAW PAW

PROPRIETARY FUNDS

STATEMENT OF CASH FLOWS

Year Ended February 28, 2006

	<i>Business-type Activities</i>				<i>Governmental Activities</i>
	<i>Electric Fund</i>	<i>Sewer Fund</i>	<i>Water Fund</i>	<i>Total</i>	<i>Motor Pool Fund</i>
Cash flows from operating activities					
Cash received from customers	\$ 2,942,012	\$ 781,034	\$ 604,930	\$ 4,327,976	\$ -
Cash received from interfund services	86,666	30,691	(150,550)	(33,193)	299,351
Cash payments to employees	(269,216)	(109,744)	(123,356)	(502,316)	(86,111)
Cash payments to suppliers for goods and services	<u>(2,595,814)</u>	<u>(291,242)</u>	<u>(201,159)</u>	<u>(3,088,215)</u>	<u>(206,664)</u>
Net cash provided (used) by operating activities	<u>163,648</u>	<u>410,739</u>	<u>129,865</u>	<u>704,252</u>	<u>6,576</u>
Cash flows from non-capital financing activities					
Advance (to) from other funds	(110,000)	-	226,217	116,217	-
Principal collected on long-term advance to	7,890	-	-	7,890	-
Principal payments on long-term advance from	<u>-</u>	<u>(111,674)</u>	<u>(25,009)</u>	<u>(136,683)</u>	<u>-</u>
Net cash provided (used) by non-capital financing activities	<u>(102,110)</u>	<u>(111,674)</u>	<u>201,208</u>	<u>(12,576)</u>	<u>-</u>
Cash flows from capital and related financing activities					
Acquisition and construction of capital assets	(135,634)	(33,194)	(32,205)	(201,033)	(36,963)
Gain on sale of capital assets	-	-	-	-	3,514
Principal payments	-	(25,000)	(150,000)	(175,000)	-
Interest paid	<u>-</u>	<u>(51,744)</u>	<u>(53,941)</u>	<u>(105,685)</u>	<u>-</u>
Net cash used by capital and related financing activities	<u>(135,634)</u>	<u>(109,938)</u>	<u>(236,146)</u>	<u>(481,718)</u>	<u>(33,449)</u>
Cash flows from investing activities					
Interest received	<u>52,534</u>	<u>14,089</u>	<u>2,541</u>	<u>69,164</u>	<u>1,850</u>
Net cash provided by investing activities	<u>52,534</u>	<u>14,089</u>	<u>2,541</u>	<u>69,164</u>	<u>1,850</u>
Net increase (decrease) in cash and cash equivalents	(21,562)	203,216	97,468	279,122	(25,023)
Cash and cash equivalents, beginning of year	<u>1,141,449</u>	<u>463,635</u>	<u>111,528</u>	<u>1,716,612</u>	<u>124,965</u>
Cash and cash equivalents, end of year	<u>\$ 1,119,887</u>	<u>\$ 666,851</u>	<u>\$ 208,996</u>	<u>\$ 1,995,734</u>	<u>\$ 99,942</u>

VILLAGE OF PAW PAW

PROPRIETARY FUNDS

STATEMENT OF CASH FLOWS, CONTINUED

Year Ended February 28, 2006

	<i>Business-type Activities</i>				<i>Governmental Activities</i>
	<i>Electric Fund</i>	<i>Sewer Fund</i>	<i>Water Fund</i>	<i>Total</i>	<i>Motor Pool Fund</i>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities					
Operating income (loss)	\$ (76,249)	\$ 136,696	\$ 150,344	\$ 210,791	\$ 32,559
Adjustments:					
Depreciation	88,270	209,057	91,355	388,682	37,913
Changes in assets and liabilities:					
Accounts receivable	38,669	42,937	27,743	109,349	(27,880)
Due from other funds	89,214	(17,234)	(41,377)	30,603	(3,690)
Inventory	(6,637)	-	1,660	(4,977)	-
Accounts payable	29,153	(10,354)	2,791	21,590	39,773
Accrued expenses	4,968	398	5,466	10,832	1,291
Due to other funds	(2,548)	47,925	(109,173)	(63,796)	(72,321)
Deposits payable	(453)	158	388	93	-
Accrued interest payable	-	(2,153)	(1,451)	(3,604)	-
Compensated absences payable	(739)	3,309	2,119	4,689	(1,069)
Net cash provided (used) by operating activities	<u>\$ 163,648</u>	<u>\$ 410,739</u>	<u>\$ 129,865</u>	<u>\$ 704,252</u>	<u>\$ 6,576</u>

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

VILLAGE OF PAW PAW

NOTES TO FINANCIAL STATEMENTS

February 28, 2006

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Village of Paw Paw conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant accounting policies:

Reporting Entity:

As required by accounting principles generally accepted in the United States of America, the financial statements of the reporting entity include those of the Village and its component unit. In evaluating the Village as a reporting entity, management has addressed all potential component units (traditionally separate reporting entities) for which the Village may be financially accountable and, as such, should be included within the Village's financial statements. The Village (the primary government) is financially accountable if it appoints a voting majority of the organization's governing board and (1) it is able to impose its will on the organization or (2) there is a potential for the organization to provide specific financial burden on the Village. Additionally, the primary government is required to consider other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The component unit discussed below is included in the Village's reporting entity because of its operational or financial relationship with the Village.

Discretely Presented Component Unit - The component unit column in the government-wide financial statements includes the financial data of the Village's one component unit. This unit is reported in a separate column to emphasize that it is legally separate from the Village. The component unit is described as follows:

Downtown Development Authority - The Downtown Development Authority (DDA) was created to correct and prevent the deterioration in the downtown district, encourage historical preservation and to promote economic growth within the downtown district. The DDA's governing body, which consists of thirteen members, is selected by the Village Council. The budgets and expenditures of the Downtown Development Authority must be approved by the Village Council. The Village also has the ability to significantly influence operations of the Downtown Development Authority.

Joint Venture – The Village is a member of the Paw Paw Fire Department which provides fire protection to the residents of the Village and four surrounding Townships. The Village no longer provides funding for the Fire Department's operation since the Township of Paw Paw receives a millage for the operation of the Fire Department and contributes the Village's portion. The Village retains 1/5 ownership rights in the capital assets acquired and reported by the Fire Department. Complete financial statements for the Fire Department can be obtained from administrative offices at 111 East Michigan Avenue, Paw Paw, Michigan.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation:

The accounts of the Village are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

VILLAGE OF PAW PAW

NOTES TO FINANCIAL STATEMENTS

February 28, 2006

Government-wide Financial Statements:

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The statement of net assets and the statement of activities report information on all of the nonfiduciary activities of the primary government and its component unit. These statements distinguish between activities that are governmental and those that are business-type activities. Internal service fund activity is eliminated to avoid “doubling up” revenues and expenses.

The statement of net assets presents governmental activities on a consolidated basis, using the economic resources measurement focus and accrual basis of accounting. This method recognizes all long-term assets and receivables as well as long-term debt and obligations. The Village’s net assets are reported in three parts (1) invested in capital assets, net of related debt, (2) restricted net assets, and (3) unrestricted net assets. The Village first utilizes restricted resources to finance qualifying activities.

The statement of activities reports both the gross and net cost of each of the Village’s functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues, fines, permits and charges, etc.). The statement of activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (property taxes, state sources and federal sources, interest income, etc.). The Village does not allocate indirect costs. In creating the government-wide financial statements the Village has eliminated interfund transactions.

The government-wide focus is on the sustainability of the Village as an entity and the change in the Village’s net assets resulting from current year activities.

Fund Financial Statements:

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, are recorded only when payment is due.

VILLAGE OF PAW PAW

NOTES TO FINANCIAL STATEMENTS

February 28, 2006

Property taxes, franchise fees, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met. Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. All other revenue items are considered to be measurable and available only when cash is received by the government.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the proprietary funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. When both restricted and unrestricted resources are available for use, it is the Village's policy to use restricted resources first, then unrestricted resources as they are needed.

The Village reports the following major governmental funds:

The **General Fund** is the primary operating fund of the Village. It is used to account for all financial resources, except for those required to be accounted for in another fund.

The **Major Street Fund** is used to account for the revenues received from the State of Michigan under Act 51 which are specifically earmarked for maintenance and construction of roads designated as major streets in the Village.

The **Revolving Loan Fund** accounts for monies designated to make loans to local businesses.

The Village reports the following major proprietary funds:

The **Electric Enterprise Fund** is used to account for the operations of the Village's electric department that provides electric services to most residents of the Village on a user charge basis.

The **Sewer Enterprise Fund** is used to account for the operations of the Village's sewer department that provides sewer services to most residents of the Village on a user charge basis.

The **Water Enterprise Fund** is used to account for the operations of the Village's water department that provides water services to most residents of the Village on a user charge basis.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do no conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Village has elected not to follow subsequent private-sector guidance.

VILLAGE OF PAW PAW

NOTES TO FINANCIAL STATEMENTS, CONTINUED

February 28, 2006

Assets, Liabilities and Equity:

Cash and Cash Equivalents – Cash and cash equivalents include cash on hand, demand deposits, certificates of deposit and short term investments with a maturity of three months or less when acquired. For purposes of the statement of cash flows, the Village considers all highly liquid investments (including restricted assets) with a maturity when purchased of three months or less to be cash equivalents.

Receivables – All receivables are recorded at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. Uncollectible balances, if any, are immaterial at year end.

Inventories – Inventories are valued at cost on a first-in first-out basis.

Capital Assets – Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair market value at the date of donation. The Village defines capital assets as assets with an initial individual cost in excess of \$1,000 and an estimated useful life in excess of two years. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized. Public domain (infrastructure) assets (e.g., roads, bridges, sidewalks and other assets that are immovable and of value only to the government) of the governmental funds are capitalized if acquired since March 1, 2004. Capital assets are depreciated using the straight-line method over the following useful lives:

Buildings and improvements	20-50 years
Furniture and equipment	5-10 years
Machinery and equipment	5-25 years
Public domain infrastructure	25 years
Site improvements	20 years
System infrastructure	5-50 years
Vehicles	5-8 years

Compensated Absences – Individual employees have a vested right to receive payments for unused sick and vacation benefits under formulas and conditions specified in Village policies.

Accumulated sick and vacation benefits of governmental funds are recorded on the statement of net assets and not on the governmental fund balance sheets because they are not expected to be liquidated with expendable available financial resources. Amounts accumulated for proprietary funds have been reported in the statement of net assets of the individual enterprise funds.

Long-term Obligations – In the government-wide financial statements and the proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. For new bond issuances after the implementation of GASB Statement No. 34, bond premiums and discounts, as well as bond issuance costs, are deferred and amortized over the life of the bonds using the straight-line method which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

VILLAGE OF PAW PAW

NOTES TO FINANCIAL STATEMENTS, CONTINUED

February 28, 2006

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as other expenditures.

Fund Equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Property Taxes – Properties are assessed as of December 31. The related property taxes are billed and become a lien on July 1 of the following year. These taxes are due on or before September 14 with the final collection date of February 28 before they are added to the County tax rolls. The 2005 valuation of the Village totaled \$71,443,267, which taxes were levied at 11.3252 mills for the Village's operating purposes and 4.5299 mills for streets.

Use of Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Eliminations and Reclassifications:

In the process of aggregating data for the statement of net assets and the statement of activities, some amounts reported as interfund activity and balances in the funds were eliminated or reclassified. Interfund receivables and payables were eliminated to minimize the "grossing up" effect on assets and liabilities within the governmental activities column.

NOTE 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information:

The annual budget is prepared by the Village management and adopted by the Village Council; subsequent amendments are approved by the Village Council. Budgets shown in the financial statements were prepared on a basis consistent with the modified accrual basis of accounting which is used to reflect actual results. Governmental funds are under formal budgetary control. Budgetary control is exercised at the department level. Unexpended appropriations lapse at year end.

Excess of Expenditures over Appropriations in Budgeted Funds:

P.A. 621 of 1978, as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. During the year, the Village incurred expenditures that were in excess of the amounts budgeted as follows:

	<i>Final Budget</i>	<i>Actual</i>	<i>Excess</i>
Revolving Loan Fund	\$ 28,955	\$ 38,681	\$ 9,726

VILLAGE OF PAW PAW

NOTES TO FINANCIAL STATEMENTS, CONTINUED

February 28, 2006

State Construction Code Act:

The Village oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The Village charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative surplus generated since January 1, 2000 is as follows:

Cumulative surplus at March 1, 2005	\$ -
Current year building permit revenue	36,980
Related expenses:	
Direct costs	46,296
Cumulative surplus at February 28, 2006	<u>\$ -</u>

NOTE 3: CASH AND CASH EQUIVALENTS

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency of instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

Custodial Credit Risk of Bank Deposits:

Custodial credit risk is the risk that in the event of a bank failure, the Village's deposits may not be returned. The Village does not have a deposit policy for custodial credit risk. At year-end, the Village had \$3,706,767 (including the Downtown Development Authority) of bank deposits (certificates of deposit, checking, and savings accounts), of which \$200,000 was covered by federal depository insurance and the remainder was uninsured and uncollateralized. The Village believes that due to the dollar amounts of cash deposits, and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Village evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with acceptable estimated risk level are used as depositories. At year end, the Village had no investments.

VILLAGE OF PAW PAW

NOTES TO FINANCIAL STATEMENTS

February 28, 2006

NOTE 4: CAPITAL ASSETS

Capital asset activity for the year ended February 28, 2006 was as follows:

	<i>March 1, 2005</i>	<i>Additions</i>	<i>Retirements</i>	<i>February 28, 2006</i>
Governmental activities:				
Depreciable capital assets				
Buildings and improvements	\$ 1,116,040	\$ 25,405	\$ -	\$ 1,141,445
Furniture and equipment	60,580	1,647	-	62,227
Infrastructure	-	268,496	-	268,496
Machinery and equipment	250,678	40,803	-	291,481
Site improvements	83,800	166,603	-	250,403
Vehicles	783,175	17,379	-	800,554
Total depreciable capital assets	<u>2,294,273</u>	<u>520,333</u>	<u>-</u>	<u>2,814,606</u>
Accumulated depreciation	<u>(1,446,357)</u>	<u>(67,168)</u>	<u>-</u>	<u>(1,513,525)</u>
Depreciable capital assets, net	<u>847,916</u>	<u>453,165</u>	<u>-</u>	<u>1,301,081</u>
Governmental activities, capital assets, net	<u>\$ 847,916</u>	<u>\$ 453,165</u>	<u>\$ -</u>	<u>\$ 1,301,081</u>
Business-type activities:				
Nondepreciable capital assets				
Land	<u>\$ 258,091</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 258,091</u>
Depreciable capital assets				
Buildings and improvements	1,209,028	7,775	-	1,216,803
Furniture and equipment	151,166	-	-	151,166
Machinery and equipment	1,580,052	3,295	-	1,583,347
Utility system				
Electric system	2,621,932	127,859	-	2,749,791
Sewer system	6,992,883	31,547	-	7,024,430
Water system	4,298,654	30,558	-	4,329,212
Total depreciable capital assets	<u>16,853,715</u>	<u>201,034</u>	<u>-</u>	<u>17,054,749</u>
Accumulated depreciation	<u>(7,353,809)</u>	<u>(388,682)</u>	<u>-</u>	<u>(7,742,491)</u>
Depreciable capital assets, net	<u>9,499,906</u>	<u>(187,648)</u>	<u>-</u>	<u>9,312,258</u>
Business-type activities, capital assets, net	<u>\$ 9,757,997</u>	<u>\$ (187,648)</u>	<u>\$ -</u>	<u>\$ 9,570,349</u>

VILLAGE OF PAW PAW

NOTES TO FINANCIAL STATEMENTS

February 28, 2006

	<u>March 1, 2005</u>	<u>Additions</u>	<u>Retirements</u>	<u>February 28, 2006</u>
Component unit - DDA:				
Depreciable capital assets				
Infrastructure	\$ -	\$ 55,734	\$ -	\$ 55,734
Total depreciable capital assets	-	55,734	-	55,734
Accumulated depreciation	-	-	-	-
Depreciable capital assets, net	-	55,734	-	55,734
Component unit - DDA, capital assets, net	<u>\$ -</u>	<u>\$ 55,734</u>	<u>\$ -</u>	<u>\$ 55,734</u>

Depreciation expense was charged to functions as follows:

Governmental activities:

General government	\$ 1,389
Public safety	7,915
Public works	47,386
Recreation and culture	10,478
Total governmental activities	<u>\$ 67,168</u>

Business-type activities:

Electric	\$ 88,270
Sewer	209,057
Water	91,355
Total business-type activities	<u>\$ 388,682</u>

NOTE 5: INTERFUND BALANCES AND TRANSFERS

The composition of interfund receivable and payable balances at February 28, 2006 is as follows:

VILLAGE OF PAW PAW

NOTES TO FINANCIAL STATEMENTS

February 28, 2006

		<u>Receivable</u>	<u>Payable</u>
General Fund	Major Street Fund	\$ (124)	\$ -
General Fund	Local Street Fund	902	(1,468)
General Fund	Revolving Loan Fund	4,678	146
General Fund	Wine and Harvest Fund	7,201	(540)
General Fund	Electric Fund	-	(34,671)
General Fund	Motor Pool Fund	84,650	(3,690)
General Fund	Sewer Fund	-	(20,234)
General Fund	Water Fund	-	(46,086)
Major Street Fund	General Fund	669	(545)
Major Street Fund	Local Street Fund	34	(3,688)
Revolving Loan Fund	General Fund	-	(4,824)
Local Street Fund	General Fund	1,468	(902)
Local Street Fund	Major Street Fund	3,688	(34)
Wine and Harvest Fund	General Fund	540	(7,201)
Electric Fund	General Fund	34,671	-
Electric Fund	Sewer Fund	48,439	-
Sewer Fund	General Fund	20,234	-
Sewer Fund	Electric Fund	-	(48,439)
Water Fund	General Fund	46,086	-
Motor Pool Fund	General Fund	3,690	(84,650)
		<u>\$ 256,826</u>	<u>\$ (256,826)</u>

The balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. Interfund transfers reported in the fund statements were as follows:

<u>Funds Transferred From</u>	<u>Funds Transferred To</u>	<u>Amount</u>
General Fund	Wine and Harvest Festival Fund	<u>\$ 10,000</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the various funds to finance various programs accounted for in other funds in accordance with budgetary authorizations.

NOTE 6: ADVANCES TO/FROM OTHER FUNDS

Advances between funds bear interest at a rate of three percent, payable monthly, with principal due on demand.

<u>Advance to</u>	<u>Advance from</u>	
General Fund	Water Fund	\$ 169,575
Electric Fund	Sewer Fund	607,641
Electric Fund	Water Fund	213,783
		<u>\$ 990,999</u>

VILLAGE OF PAW PAW

NOTES TO FINANCIAL STATEMENTS

February 28, 2006

NOTE 7: DEFERRED REVENUE

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At year end, the various components of deferred revenue are as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Notes/Loans	<u>\$ 390,590</u>	<u>\$ -</u>

NOTE 8: LONG-TERM LIABILITIES

The Village may issue bonds to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the Village. Other long-term liabilities include compensated absences.

The following is a summary of debt transactions of the Village for the year ended February 28, 2006:

<u>Types of Indebtedness</u>	<u>March 1, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>February 28, 2006</u>	<u>Due Within One Year</u>
<u>Governmental Activities</u>					
Compensated absences payable	<u>\$ 207,859</u>	<u>\$ 21,191</u>	<u>\$ 1,069</u>	<u>\$ 227,981</u>	<u>\$ -</u>
<u>Business-type Activities</u>					
Michigan Drinking Water Revolving Loan due in annual amounts of \$40,000-52,340 plus interest at 2.5% through 2019.	\$ 632,340	\$ -	\$ 35,000	\$ 597,340	\$ 40,000
Sewage Disposal System Bonds, Series 2000, due in annual amounts of \$25,000-75,000 plus interest at 4.4-5.25% through 2020.	685,000	-	25,000	660,000	25,000
Water Supply System No. 1 Refunding Bonds, due in annual amounts of \$105,000-120,000 plus interest at 4.0-4.55% through 2013.	910,000	-	115,000	795,000	110,000
Compensated absences payable	<u>53,974</u>	<u>5,428</u>	<u>739</u>	<u>58,663</u>	<u>-</u>
Total business-type activities	<u>\$ 2,281,314</u>	<u>\$ 5,428</u>	<u>\$ 175,739</u>	<u>\$ 2,111,003</u>	<u>\$ 175,000</u>

VILLAGE OF PAW PAW

NOTES TO FINANCIAL STATEMENTS

February 28, 2006

Annual debt service requirements to maturity for all outstanding debt (excluding compensated absences payable) as of February 28, 2006 are as follows:

<i>Year Ended</i> <i>February 28.</i>	<i>Business-type Activities</i>		
	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
2007	\$ 175,000	\$ 80,169	\$ 255,169
2008	180,000	73,552	253,552
2009	180,000	66,643	246,643
2010	180,000	59,701	239,701
2011	205,000	52,523	257,523
2012-2016	720,000	148,854	868,854
2017-2020	412,340	34,023	446,363
	<u>\$ 2,052,340</u>	<u>\$ 515,465</u>	<u>\$ 2,567,805</u>

NOTE 9: DISAGGREGATED RECEIVABLE AND PAYABLE BALANCES

Receivables and payables as of year end for the Village's governmental and business-type activities in the aggregate are as follows:

	<i>Governmental</i> <i>Activities</i>	<i>Business-type</i> <i>Activities</i>	<i>Component</i> <i>Unit - DDA</i>
Receivables:			
Property taxes	\$ 75,636	\$ -	\$ -
Accounts	52,345	510,453	-
Notes receivable	390,590	-	86,167
Intergovernmental	92,740	-	50,869
Total receivables	<u>\$ 611,311</u>	<u>\$ 510,453</u>	<u>\$ 137,036</u>
Accounts payable and accrued expenses:			
Accounts payable	\$ 75,893	\$ 197,561	\$ 1,074
Accrued payroll and related liabilities	44,488	23,380	214
Intergovernmental	465	-	3,787
Customer deposits	-	49,133	-
Accrued interest payable	-	31,016	-
Total accounts payable and accrued expenses	<u>\$ 120,846</u>	<u>\$ 301,090</u>	<u>\$ 5,075</u>

VILLAGE OF PAW PAW

NOTES TO FINANCIAL STATEMENTS

February 28, 2006

NOTE 10: RISK MANAGEMENT

The Village is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation), as well as medical benefits provided to employees. The Village has purchased commercial insurance for workers' compensation claims and medical claims, and participates in the Michigan Municipal Risk Management Authority (risk pool) for claims relating to general liability and property and crime liability. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in the past three fiscal years.

The Michigan Municipal Risk Management Authority risk pool program operates as a claims servicing pool for amounts up to member retention limits, and operates as a common risk-sharing management program for losses in excess of member retention amounts. Although premiums are paid annually to the Authority that the Authority uses to pay claims up to the retention limits, the ultimate liability for those claims remains with the Village. The Village maintains a deposit with the risk pool of \$69,884 to cover such claims.

NOTE 11: EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS

Defined Benefit Pension Plan (Michigan Municipal Employees' Retirement System)

Plan Description – The Village participates in the Michigan Municipal Employees' Retirement System (MERS), an agent multiple-employer defined benefit pension plan that covers all employees of the Village. The system provides retirement, disability and death benefits to plan members and their beneficiaries. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to MERS at 447 N. Canal Rd., Lansing, Michigan 48917.

Funding Policy – The obligation to contribute to and maintain the system for these employees was established by negotiations with the Village's competitive bargaining units and requires a contribution from the employees of between 3 percent and 5 percent.

Annual Pension Costs – For the year ended February 28, 2006, the Village's annual pension cost of \$88,127 for the plan was equal to the required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2003, using the entry actual age cost method. Significant actuarial assumption used include: (i) an 8% investment rate of return; (ii) projected salary increases of 4.5% per year plus a percentage based on an age-related scale to reflect merit, longevity and promotional increases. Both (i) and (ii) include an inflation component of 4.5%. All are determined using techniques that smooth the effects of short-term volatility over a four year period.

Three year trend information:

	<i>Fiscal Years Ended February 28,</i>		
	<i>2004</i>	<i>2005</i>	<i>2006</i>
Annual pension cost	\$ 27,900	\$ 47,304	\$ 88,127
Percentage of APC contributed	100%	100%	100%
Net pension obligation	-	-	-

VILLAGE OF PAW PAW

NOTES TO FINANCIAL STATEMENTS

February 28, 2006

NOTE 12: FUND EQUITY

Specific reservations on fund equity include:

Reserved for risk pool deposit – This reserve represents the deposit the Village maintains with the Michigan Municipal Risk Management Authority risk pool program to cover loss claims.

NOTE 13: PRIOR PERIOD ADJUSTMENTS

Accounting Change:

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34, *Basic Financial Statements – and Management Discussion and Analysis – for State and Local Governments* (Statement). The Village was required to implement the new requirements for the year ended February 28, 2005. Effective March 1, 2005, the Village implemented the provisions of GASB Statement No. 34. The more significant of the changes to the financial statements as a result of the Statement are as follows:

For the first time, the financial statements will include:

- Government-wide financial statements prepared using full accrual accounting for all of the Village's activities.
- Fund financial statements, consisting of a series of statements that focus on a government's major governmental and enterprise funds.

As a result of implementing the Statement, the following restatements were made to beginning fund balance and net asset accounts:

Fund Financial Statements:

The beginning net assets of the enterprise funds and of the internal service funds were derived by aggregating the previously reported retained earnings and contributed capital of those funds.

Government-wide Financial Statements:

Beginning net assets for governmental activities was determined as follows:

Fund balances of governmental funds as of 2/28/05, restated	\$ 1,578,261
Add: Governmental capital assets, including general fixed assets	1,103,051
Deduct: Accumulated depreciation as of 2/28/05 on above governmental capital assets	(587,509)
Add: Governmental internal service fund net assets as of 2/28/05, restated	274,679
Add: Deferred revenue recognized as revenue as of 2/28/05	484,209
Deduct: Governmental compensated absences payable as of 2/28/05	<u>(188,958)</u>
Governmental net assets, restated, as of 2/28/05	<u>\$ 2,663,733</u>

VILLAGE OF PAW PAW

NOTES TO FINANCIAL STATEMENTS, CONTINUED

February 28, 2006

Adjustments to General Fund:

Recognition of state shared revenue payments of sales tax should agree with the State of Michigan's distribution periods. In prior years, the payment distributed in April for January/February collection period was recorded as revenue in the next year, or the year that it was received. In accordance with accounting principles generally accepted in the United States of America, this payment should be accrued to the prior year.

During the fiscal year ended February 28, 2006, the Village closed the Building Inspection Fund into the General Fund.

In the fiscal year ended February 28, 2005, there were expenditures that were understated related to equipment rental and liability insurance costs.

The effect of these adjustments on the fund balance of the General Fund is as follows:

Fund balance of General Fund, as of 2/28/05, previously stated	\$ 1,153,592
Fund balance of Building Inspection Fund, as of 2/28/05	(4,660)
Add: State shared revenue for sales tax that should have accrued to prior year	45,512
Less: Equipment rental expenditures incurred as of 2/28/05 not recorded	(7,085)
Less: Liability insurance costs incurred as of 2/28/05 not recorded	(39,900)
Fund balance of General Fund, as of 2/28/05, restated	<u>\$ 1,147,459</u>

Adjustments to Special Revenue Funds:

During the fiscal year ended February 28, 2006, the Village closed the Building Inspection Fund into the General Fund.

In the fiscal year ended February 28, 2005, there were expenditures that were understated related to equipment rental.

The effect of these adjustments on the fund balance of these funds is as follows:

	<i>Major Street Fund</i>	<i>Local Street Fund</i>	<i>Building Inspection Fund</i>
Fund balances, as of 2/28/05, previously stated	\$ 88,738	\$ 31,227	\$ (4,660)
Building Inspection Fund closed into the General Fund	-	-	4,660
Less: Equipment rental expenditures incurred as of 2/28/05 not recorded	(746)	(879)	-
Fund balances, as of 2/28/05, restated	<u>\$ 87,992</u>	<u>\$ 30,348</u>	<u>\$ -</u>

VILLAGE OF PAW PAW

NOTES TO FINANCIAL STATEMENTS

February 28, 2006

Adjustments to Proprietary Funds:

In the fiscal year ended February 28, 2005, there were expenditures that were understated related to equipment rental in the enterprise funds.

The effect of these adjustments on the retained earnings/net assets of these funds is as follows:

	<i><u>Electric Fund</u></i>	<i><u>Sewer Fund</u></i>	<i><u>Water Fund</u></i>
Retained earnings/Net assets, as of 2/28/05, previously stated	\$ 3,642,290	\$ 4,256,441	\$ 1,586,440
Less: Equipment rental expenditures incurred as of 2/28/05 not recorded	<u>(1,890)</u>	<u>(513)</u>	<u>827</u>
Net assets, as of 2/28/05, restated	<u>\$ 3,640,400</u>	<u>\$ 4,255,928</u>	<u>\$ 1,587,267</u>

In the fiscal year ended February 28, 2005, there were equipment rental revenues that were understated in the internal service fund.

The effect of this adjustment on the retained earnings/net assets of this fund is as follows:

	<i><u>Motor Pool Fund</u></i>
Retained earnings/Net assets, as of 2/28/05, previously stated	\$ 255,831
Add: Equipment rental revenue earned as of 2/28/05 not recorded	<u>18,848</u>
Net assets, as of 2/28/05, restated	<u>\$ 274,679</u>

REQUIRED SUPPLEMENTAL INFORMATION

VILLAGE OF PAW PAW

SCHEDULE OF PENSION PLAN FUNDING PROGRESS

Year Ended March 31, 2006

<i>Actuarial Valuation Date</i>	<i>12/31/2003</i>	<i>12/31/2004</i>	<i>12/31/2005</i>
Actuarial Value of Assets	\$ 4,853,357	\$ 5,056,737	\$ 5,299,698
Actuarial Accrued Liability (AAL)	4,813,229	5,243,455	5,661,860
Unfunded AAL (UAAL)	(40,128)	186,718	362,162
Funded Ratio	101%	96%	94%
Covered Payroll	1,099,492	1,218,113	1,388,816
UAAL as a percentage of covered payroll	0%	15%	26%

VILLAGE OF PAW PAW

GENERAL FUND

BUDGETARY COMPARISON SCHEDULE

Year Ended February 28, 2006

	<i>Budgeted Amounts</i>			<i>Variance with Final Budget</i>
	<i>Original</i>	<i>Final</i>	<i>Actual</i>	
Revenues				
Property taxes	\$ 815,550	\$ 854,800	\$ 851,119	\$ (3,681)
Licenses and permits	57,550	58,150	55,494	(2,656)
State grants	316,600	354,000	361,658	7,658
Charges for services	549,825	549,825	547,783	(2,042)
Fines and forfeits	20,300	25,200	16,070	(9,130)
Interest and rents	27,500	33,720	40,539	6,819
Other revenue	275,220	97,335	107,824	10,489
Total revenues	2,062,545	1,973,030	1,980,487	7,457
Expenditures				
Current				
General government	370,885	363,415	345,569	(17,846)
Public safety	889,905	869,760	849,578	(20,182)
Public works	590,900	555,200	496,163	(59,037)
Community and economic development	38,665	28,265	23,088	(5,177)
Recreation and culture	221,350	263,300	258,368	(4,932)
Capital outlay	53,500	268,250	265,879	(2,371)
Total expenditures	2,165,205	2,348,190	2,238,645	(109,545)
Excess (deficiency) of revenues over expenditures	(102,660)	(375,160)	(258,158)	117,002
Other financing sources (uses)				
Transfers out	(15,000)	(15,000)	(10,000)	5,000
Total other financing sources (uses)	(15,000)	(15,000)	(10,000)	5,000
Net change in fund balance	(117,660)	(390,160)	(268,158)	122,002
Fund balance, beginning of year, restated	1,147,459	1,147,459	1,147,459	-
Fund balance, end of year	\$ 1,029,799	\$ 757,299	\$ 879,301	\$ 122,002

VILLAGE OF PAW PAW

SPECIAL REVENUE FUND – MAJOR STREET FUND

BUDGETARY COMPARISON SCHEDULE

Year Ended February 28, 2006

	<i>Budgeted Amounts</i>			<i>Variance with Final Budget</i>
	<i>Original</i>	<i>Final</i>	<i>Actual</i>	
Revenues				
Property taxes	\$ 136,870	\$ 122,200	\$ 126,581	\$ 4,381
State grants	215,680	215,680	171,518	(44,162)
Contributions from other units	-	20,670	20,301	(369)
Interest and rents	800	3,900	3,526	(374)
Other revenue	-	-	15	15
Total revenues	<u>353,350</u>	<u>362,450</u>	<u>321,941</u>	<u>(40,509)</u>
Expenditures				
Current				
Public works	413,244	240,144	208,826	(31,318)
Capital outlay	-	157,600	157,600	-
Total expenditures	<u>413,244</u>	<u>397,744</u>	<u>366,426</u>	<u>(31,318)</u>
Net change in fund balance	(59,894)	(35,294)	(44,485)	(9,191)
Fund balance, beginning of year, restated	<u>87,992</u>	<u>87,992</u>	<u>87,992</u>	<u>-</u>
Fund balance, end of year	<u>\$ 28,098</u>	<u>\$ 52,698</u>	<u>\$ 43,507</u>	<u>\$ (9,191)</u>

VILLAGE OF PAW PAW

SPECIAL REVENUE FUND – REVOLVING LOAN FUND

BUDGETARY COMPARISON SCHEDULE

Year Ended February 28, 2006

	<i>Budgeted Amounts</i>			<i>Variance with Final Budget</i>
	<i>Original</i>	<i>Final</i>	<i>Actual</i>	
Revenues				
Interest and rents	\$ 25,640	\$ 39,045	\$ 37,924	\$ (1,121)
Other revenue	152,385	96,900	107,766	10,866
Total revenues	178,025	135,945	145,690	9,745
Expenditures				
Current				
General government	166,990	28,955	38,681	9,726
Total expenditures	166,990	28,955	38,681	9,726
Net change in fund balance	11,035	106,990	107,009	19
Fund balance, beginning of year	309,677	309,677	309,677	-
Fund balance, end of year	<u>\$ 320,712</u>	<u>\$ 416,667</u>	<u>\$ 416,686</u>	<u>\$ 19</u>

OTHER SUPPLEMENTAL INFORMATION

VILLAGE OF PAW PAW

GENERAL FUND

DETAILED SCHEDULE OF REVENUES

Year Ended February 28, 2006

Current taxes:

Property taxes	\$ 708,117
Trailer tax	416
Penalties and interest on taxes	8,550
Payment in lieu of taxes	<u>134,036</u>
	<u>851,119</u>

Licenses and permits:

Nonbusiness licenses and permits	36,980
CATV franchise fees	<u>18,514</u>
	<u>55,494</u>

State grants:

Liquor license fees	4,740
State revenue sharing - sales tax	349,122
Police	<u>7,796</u>
	<u>361,658</u>

Charges for services:

Recreation fees	70
Zoning fees	625
Other	116
Administrative charge to other departments/funds	<u>546,972</u>
	<u>547,783</u>

Fines and forfeitures:

Traffic and parking fines	2,470
Court cost reimbursements	<u>13,600</u>
	<u>16,070</u>

Interest and rents:

Interest	27,619
Rents	<u>12,920</u>
	<u>40,539</u>

Other revenue:

Sale of capital assets	37,500
Contributions and donations	12,265
Reimbursements	5,976
Loan repayments	47,187
Other	<u>4,896</u>
	<u>107,824</u>

Total revenues	<u><u>\$ 1,980,487</u></u>
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VILLAGE OF PAW PAW

GENERAL FUND

DETAILED SCHEDULE OF EXPENDITURES

Year Ended February 28, 2006

Expenditures:

General Government:

Governmental:

Personnel	\$ 89,745
Fringe benefits	27,663
Supplies	8,903
Contracted services	9,936
Telephone	5,281
Dues and memberships	823
Education and training	2,665
Printing and publications	1,761
Insurance	116,990
Utilities	4,270
Repairs and maintenance	5,771
Equipment rental	452
Other	28,055
	<u>302,315</u>

Audit:

Contracted services	<u>13,900</u>
	<u>13,900</u>

Legal:

Contracted services	<u>29,354</u>
	<u>29,354</u>

Total general government	<u>345,569</u>
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Public Safety:

Law Enforcement:

Personnel	518,400
Fringe benefits	91,241
Supplies	10,921
Contracted services	34,526
Telephone	5,788
Dues and memberships	270
Education and training	3,379
Printing and publications	614
Insurance	35,955
Utilities	2,309
Repairs and maintenance	5,812
Equipment rental	79,915
Other	1,310
	<u>790,440</u>

VILLAGE OF PAW PAW

GENERAL FUND

DETAILED SCHEDULE OF EXPENDITURES, CONTINUED

Year Ended February 28, 2006

Expenditures, continued:

Public Safety, continued:

Fire Protection:

Contracted services	\$ 1,227
Repairs and maintenance	11,615
	<u>12,842</u>

Inspections:

Personnel	6,161
Fringe benefits	1,584
Contracted services	38,438
Equipment rental	113
	<u>46,296</u>

Total public safety	<u>849,578</u>
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Public Works:

Public Services:

Personnel	185,372
Fringe benefits	45,451
Supplies	18,504
Contracted services	7,197
Telephone	6,982
Dues and memberships	1,037
Education and training	2,587
Insurance	26,965
Utilities	15,009
Repairs and maintenance	21,714
Equipment rental	106,258
Other	587
	<u>437,663</u>

Street Lighting:

Utilities	58,500
	<u>58,500</u>

Total public works	<u>496,163</u>
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VILLAGE OF PAW PAW

GENERAL FUND

DETAILED SCHEDULE OF EXPENDITURES, CONTINUED

Year Ended February 28, 2006

Expenditures, continued:

Community and Economic Development:

Planning:

Personnel	\$ 13,039
Fringe benefits	2,801
Contracted services	4,552
Dues and memberships	750
Education and training	1,073
Printing and publications	790
Other	83
	<u>23,088</u>

Total community and economic development	<u>23,088</u>
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Recreation and Culture:

Recreation and Parks:

Personnel	37,462
Fringe benefits	12,078
Supplies	5,926
Contracted services	168,392
Utilities	2,824
Repairs and maintenance	1,433
Equipment rental	29,608
Other	645
	<u>258,368</u>

Total recreation and culture	<u>258,368</u>
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Capital Outlay:

General government	21,898
Public safety	23,708
Public works	210,258
Recreation and culture	10,015
	<u>265,879</u>

Total capital outlay	<u>265,879</u>
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Total expenditures	<u>2,238,645</u>
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Other Financing Uses:

Transfer to other fund	<u>10,000</u>
	<u>10,000</u>

Total other financing uses	<u>10,000</u>
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Total expenditures and other financing uses	<u>\$ 2,248,645</u>
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VILLAGE OF PAW PAW

NONMAJOR GOVERNMENTAL FUNDS

COMBINING BALANCE SHEET

Year Ended February 28, 2006

	<i>Local Street Fund</i>	<i>Wine and Harvest Festival Fund</i>	<i>Total Nonmajor Governmental Funds</i>
Assets:			
Cash and cash equivalents	\$ 65,169	\$ 11,056	\$ 76,225
Taxes receivable	13,284	-	13,284
Due from other governmental units	11,611	-	11,611
Due from other funds	5,155	540	5,695
Total assets	<u>\$ 95,219</u>	<u>\$ 11,596</u>	<u>\$ 106,815</u>
Liabilities and Fund Balances:			
Liabilities:			
Accounts payable and accrued expenses	\$ 3,660	\$ 2,095	\$ 5,755
Due to other governmental units	38	-	38
Due to other funds	936	7,201	8,137
Total liabilities	<u>4,634</u>	<u>9,296</u>	<u>13,930</u>
Fund balances:			
Unreserved:			
Special revenue funds	90,585	2,300	92,885
Total fund balances	<u>90,585</u>	<u>2,300</u>	<u>92,885</u>
Total liabilities and fund balances	<u>\$ 95,219</u>	<u>\$ 11,596</u>	<u>\$ 106,815</u>

VILLAGE OF PAW PAW

NONMAJOR GOVERNMENTAL FUNDS

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

Year Ended February 28, 2006

	<i>Local Street Fund</i>	<i>Wine and Harvest Festival Fund</i>	<i>Total Nonmajor Governmental Funds</i>
Revenues			
Property taxes	\$ 188,185	\$ -	\$ 188,185
State grants	71,304	-	71,304
Contributions from other units	31,752	-	31,752
Charges for services	-	17,152	17,152
Interest and rents	4,621	5,448	10,069
Other revenue	-	19,017	19,017
Total revenues	<u>295,862</u>	<u>41,617</u>	<u>337,479</u>
Expenditures			
Current			
Public safety	160,852	-	160,852
Recreation and culture	-	52,102	52,102
Capital outlay	<u>74,773</u>	<u>-</u>	<u>74,773</u>
Total expenditures	<u>235,625</u>	<u>52,102</u>	<u>287,727</u>
Excess (deficiency) of revenues over expenditures	<u>60,237</u>	<u>(10,485)</u>	<u>49,752</u>
Other financing sources (uses)			
Transfers in	<u>-</u>	<u>10,000</u>	<u>10,000</u>
Total other financing sources (uses)	<u>-</u>	<u>10,000</u>	<u>10,000</u>
Net change in fund balances	60,237	(485)	59,752
Fund balances, beginning of year, restated	<u>30,348</u>	<u>2,785</u>	<u>33,133</u>
Fund balances, end of year	<u>\$ 90,585</u>	<u>\$ 2,300</u>	<u>\$ 92,885</u>

VILLAGE OF PAW PAW

COMPONENT UNIT

BALANCE SHEET

Year Ended February 28, 2006

	<i>Downtown Development Authority</i>
Assets:	
Cash and cash equivalents	\$ 500,164
Notes receivable	80,125
Due from other governmental units	<u>51,843</u>
Total assets	<u><u>\$ 632,132</u></u>
Liabilities and Fund Balance:	
<i>Liabilities:</i>	
Accounts payable and accrued expenses	\$ 1,288
Due to primary government	3,787
Deferred revenue	<u>80,125</u>
Total liabilities	<u>85,200</u>
<i>Fund balance:</i>	
Unreserved	<u>546,932</u>
Total fund balance	<u>546,932</u>
Total liabilities and fund balance	<u><u>\$ 632,132</u></u>

VILLAGE OF PAW PAW

NONMAJOR GOVERNMENTAL FUNDS

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

Year Ended February 28, 2006

	<i><u>Downtown Development Authority</u></i>
Revenues	
Property taxes	\$ 284,324
Interest and rents	6,860
Other revenue	<u>20,819</u>
Total revenues	<u>312,003</u>
Expenditures	
Current	
Community and economic development	76,218
Capital outlay	<u>55,829</u>
Total expenditures	<u>132,047</u>
Net change in fund balance	179,956
Fund balance, beginning of year	<u>366,976</u>
Fund balance, end of year	<u><u>\$ 546,932</u></u>

VILLAGE OF PAW PAW

BUSINESS-TYPE ACTIVITIES

SCHEDULE OF INDEBTEDNESS

February 28, 2006

MICHIGAN DRINKING WATER REVOLVING LOAN

Issue dated September 28, 1998 in the amount of \$ 830,000

Less: Principal paid in prior years (197,660)
 Principal paid in current year (35,000)

Balance payable at February 28, 2006 \$ 597,340

Balance payable as follows:

<u>Year Ended</u>	<u>Rate</u>	<u>Interest due</u> <u>April 1</u>	<u>Interest due</u> <u>October 1</u>	<u>Principal due</u> <u>October 1</u>	<u>Total</u> <u>Annual</u> <u>Requirement</u>
2007	2.500%	\$ 7,438	\$ 6,937	\$ 40,000	\$ 54,375
2008	2.500%	6,938	6,437	40,000	53,375
2009	2.500%	6,438	5,937	40,000	52,375
2010	2.500%	5,938	5,437	40,000	51,375
2011	2.500%	5,438	4,937	40,000	50,375
2012	2.500%	4,938	4,375	45,000	54,313
2013	2.500%	4,375	3,750	50,000	58,125
2014	2.500%	3,750	3,125	50,000	56,875
2015	2.500%	3,125	2,500	50,000	55,625
2016	2.500%	2,500	1,875	50,000	54,375
2017	2.500%	1,875	1,250	50,000	53,125
2018	2.500%	1,250	625	50,000	51,875
2019	2.500%	625	-	52,340	52,965
		<u>\$ 54,628</u>	<u>\$ 47,185</u>	<u>\$ 597,340</u>	<u>\$ 699,153</u>

VILLAGE OF PAW PAW

BUSINESS-TYPE ACTIVITIES

SCHEDULE OF INDEBTEDNESS

February 28, 2006

SEWAGE DISPOSAL SYSTEM BONDS, SERIES 2000

Issue dated January 1, 2001 in the amount of \$ 750,000

Less: Principal paid in prior years (65,000)
Principal paid in current year (25,000)

Balance payable at February 28, 2006 \$ 660,000

Balance payable as follows:

<u>Year Ended</u>	<u>Rate</u>	<u>Principal due April 1</u>	<u>Interest due October 1</u>	<u>Interest due October 1</u>	<u>Total Annual Requirement</u>
2007	4.40%	\$ 25,000	\$ 16,216	\$ 15,666	\$ 56,882
2008	4.45%	30,000	15,666	14,999	60,665
2009	4.50%	35,000	14,999	14,211	64,210
2010	4.55%	35,000	14,211	13,415	62,626
2011	4.60%	40,000	13,415	12,495	65,910
2012	4.70%	40,000	12,495	11,555	64,050
2013	4.80%	45,000	11,555	10,475	67,030
2014	4.90%	45,000	10,475	9,373	64,848
2015	5.00%	50,000	9,373	8,123	67,496
2016	5.05%	55,000	8,123	6,734	69,857
2017	5.10%	60,000	6,734	5,204	71,938
2018	5.15%	60,000	5,204	3,659	68,863
2019	5.20%	65,000	3,659	1,969	70,628
2020	5.25%	75,000	1,969	-	76,969
		<u>\$ 660,000</u>	<u>\$ 144,094</u>	<u>\$ 127,878</u>	<u>\$ 931,972</u>

VILLAGE OF PAW PAW

BUSINESS-TYPE ACTIVITIES

SCHEDULE OF INDEBTEDNESS

February 28, 2006

WATER SUPPLY SYSTEM NO. 1 REFUNDING BONDS

Issue dated February 13, 2001 in the amount of \$ 1,195,000

Less: Principal paid in prior years (285,000)
 Principal paid in current year (115,000)

Balance payable at February 28, 2006 \$ 795,000

Balance payable as follows:

<u><i>Year Ended</i></u>	<u><i>Rate</i></u>	<u><i>Interest due May 1</i></u>	<u><i>Interest due November 1</i></u>	<u><i>Principal due November 1</i></u>	<u><i>Total Annual Requirement</i></u>
2007	4.00%	\$ 16,956	\$ 16,956	\$ 110,000	\$ 143,912
2008	4.05%	14,756	14,756	110,000	139,512
2009	4.15%	12,529	12,529	105,000	130,058
2010	4.25%	10,350	10,350	105,000	125,700
2011	4.35%	8,119	8,119	125,000	141,238
2012	4.45%	5,400	5,400	120,000	130,800
2013	4.55%	<u>2,730</u>	<u>2,730</u>	<u>120,000</u>	<u>125,460</u>
		<u><u>\$ 70,840</u></u>	<u><u>\$ 70,840</u></u>	<u><u>\$ 795,000</u></u>	<u><u>\$ 936,680</u></u>



July 19, 2006

To The Village Council
Village of Paw Paw, Michigan

We have audited the financial statements of the Village of Paw Paw for the year ended February 28, 2006. As required by auditing standards generally accepted in the United States, the independent auditor is required to make several communications to the governing body having oversight responsibility for the audit. The purpose of this communication is to provide you with additional information regarding the scope and results of our audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

Our Responsibility Under U.S. Generally Accepted Auditing Standards

We conducted our audit of the financial statements of the Village of Paw Paw in accordance with auditing standards generally accepted in the United States. The following paragraph explains our responsibilities under those standards.

Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets, and for devising an internal control structure that will, among other things, help assure the proper recording of transactions. The transactions that should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management. Our knowledge of such transactions is limited to that acquired through our audit. Accordingly, the fairness of representations made through the financial statements is an implicit and integral part of management's accounts and records. However, our responsibility for the financial statements is confined to the expression of an opinion on them. The financial statements remain the responsibility of management.

The concept of materiality is inherent in the work of an independent auditor. An auditor places greater emphasis on those items that have, on a relative basis, more importance to the financial statements and greater possibilities of material error than those items of lesser importance or those in which the possibility of material error is remote.

For this purpose, materiality has been defined as “the magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement.”

An independent auditor’s objective in an audit is to obtain sufficient competent evidential matter to provide a reasonable basis for forming an opinion on the financial statements. In doing so, the auditor must work within economic limits; the opinion, to be economically useful, must be formed within a reasonable length of time and at reasonable cost. That is why an auditor’s work is based on selected tests rather than an attempt to verify all transactions. Since evidence is examined on a test basis only, an audit provides only reasonable assurance, rather than absolute assurance, that financial statements are free of material misstatement. Thus, there is a risk that audited financial statements may contain undiscovered material errors or fraud. The existence of that risk is implicit in the phrase in the audit report, “in our opinion.”

In the audit process, we gain an understanding of the internal control structure of an entity for the purpose of assisting in determining the nature, timing, and extent of audit testing. Our understanding is obtained by inquiry of management, testing transactions, and observation and review of documents and records. The amount of work done is not sufficient to provide a basis for an opinion on the adequacy of the internal control structure.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Village of Paw Paw are described in Note 1 to the financial statements. The Village implemented the Governmental Accounting Standards Board Statement 34, effective March 1, 2005. The financial statements now include the government-wide Statement of Net Assets and Statement of Activities as required by GASB #34 and generally accepted accounting principles. We noted no transactions entered into by the Village of Paw Paw during the year that were significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Other Communications

Auditing standards call for us to inform you of other significant issues such as, but not limited to, 1) Accounting estimates that are particularly sensitive because of their significance to the financial statements or because of the possibility that future events affecting them may differ markedly from management’s current judgments; 2) Significant audit adjustments that may not have been detected except through the auditing procedures we performed; 3) Disagreements with management regarding the scope of the audit or application of accounting principles; 4) Consultation with other accountants; 5)

Major issues discussed with management prior to retention; and 6) Difficulties encountered in performing the audit.

We have significant issues, regarding these matters, to report to you at this time, as follow:

Significant Audit Adjustments

In all, we were required to provide approximately thirty-five (35) adjusting journal entries. Some of the more significant adjustments follow: A large adjustment of The Cash, Due To and Due From accounts was required to correct transactions done to record transfers between the various fund bank accounts. Also, an adjustment of approximately \$11,000 was required to reduce the cash accounts for re-deposits of customer NSF checks that were recorded incorrectly.

We provided an adjustment to record State Revenue Sharing receivable of \$47,194 as of February 28, 2006 and \$45,512 as of February 28, 2005 (a prior period adjustment).

In the Equipment Rental Internal Service Fund, we provided an adjustment to record a \$27,880 equipment rental receivable from other funds as of February 28, 2006. Only the account payable side of this internal charge between funds had been recorded. In the Equipment Rental fund, a prior period adjustment was required for \$18,848 for the February 2005 internal charges that had been similarly recorded incorrectly.

An adjustment of \$29,900 was required to record the decrease in the Cash/Deposit held by the Michigan Municipal Risk Management Authority (MMRMA). This included a \$10,000 adjustment that should have been recorded in the prior year.

Difficulties Encountered

Difficulties encountered centered primarily around the significant audit adjustments as described above. Reconciliation of the cash balances especially caused additional difficulties.

We also encountered some difficulty with the depreciation schedules that we were provided for the period ended February 28, 2005. The detail balances there did not reconcile to the general ledger balances by about \$18,000. We were ultimately able to correct the schedules to agree with the general ledger.

We encountered difficulties agreeing the internal equipment rental revenue to the internal equipment rental expense.

Comments and Recommendations

Cash Reconciliations

Condition: The cash balances in the bank were not fully or correctly reconciled to the general ledger balances at year-end. The primary cause is because transfers of cash between accounts are not always done promptly and accurately. Another cause is that the transaction done to record the re-deposits of customers NSF checks is done incorrectly.

Criteria: Good internal control procedures require that cash balances be reconciled completely, accurately and promptly at the end of each month.

Effect: The financial reports cannot be relied upon as accurate until the book cash balances are reconciled to the bank balances. Receipt and disbursement transaction errors could go undetected until the cash account is properly reconciled.

Recommendation: The required transfers of cash from the various funds to the pooled checking account must be done promptly, accurately and consistently each time the pooled account checks are processed.

The bank apparently has sometimes not made transfers when needed because of some fax communication problems with the Village. We recommend that the transfer transactions be verified each time with a transaction receipt from the bank.

Another possible solution is for the Village to pool all of its various funds accounts at the bank, thus completely eliminating the need to physically move money back and forth at the bank and eliminating a reconciliation problem. The cash book balance of each fund would then represent its share of the pooled cash balance belonging to each fund.

Re-deposit transaction entries must be done correctly. The re-deposit should be done as a separate deposit. An entry in the books, usually, is required only if the re-deposit doesn't clear.

Summary

We welcome any questions you may have regarding the foregoing comments and we would be happy to discuss any of these or other questions that you might have at your convenience.

Sincerely,

Berthiaume & Co.

Berthiaume & Company
Certified Public Accountants